Impacts of Mergers and Acquisitions on Service quality of Banks in Rajasthan

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Abstract:
Banking sector occupies a very important place in Indian economy and it is one of the fastest growing sectors in India. The competition is intense and irrespective of the challenge from the multinational players, domestic banks - both public and private are also seen rigorous in their pursuit of gaining competitive edge by acquiring or merging with potential opportunities as present today. New tendencies such globalization, integration, disintermediation and deregulation give the basis for new dimensions in the banking services industry. As a result, Mergers and acquisitions are the order of the day.
Since the entire business depends on the customer's positive feedback and satisfaction, good customer service is essential in this kind of business. It is always being argued that the impact of mergers and acquisitions on the customer is difficult to measure due to the direct influence of external factors like global competition or advancement in technology. Here we are considering a case of Vijaya Bank and Dena Bank which amalgamated into Bank of Baroda with effect from April 1, 2019 .Therefore, the aim of this article is to study the impact of mergers, acquisitions and amalgamation on service quality of these Banks.

Keywords: *merger and acquisition, Amalgamation, Banks' Strategy, Human Resources, Bank and financial institutions, customer satisfaction, service quality.*

1 . Introduction:
Mergers in Banking Sector in India have initially taken place to strengthen the banking system by merging the weak/ loss making and inefficient banks with other profit making and strong banks.
But in recent times mergers are taking place between profit making banks for availing the benefits by way of synergies to mergers. Indian Banking system has witnessed several mergers that have taken place for various reasons over a period of time recently being merger of Bank of Baroda with Vijaya and Dena Bank.
Bank mergers are claimed to be the sources of efficiency gains from the realization of economies of scale and economies of scope, the removal of overlapping services and the increasing awareness of innovative banking tools. The amalgamation provides significant long-term benefits to the Bank and its customers.

2. Review of Literature
The worldwide financial crisis has promoted consolidation of the banking system faster on the ground that this would contribute to the stabilization on the banking system of the region.
Frei et al. (1996) have suggested that the cost efficiency effects of merger and acquisition may depend on the type of merger and acquisition. According to Berger & Humphrey (1997), the rationale for consolidation of banking institutions through mergers and acquisitions is to improve cost and revenue efficiency that will in turn improve profitability, safety and soundness of these institutions. Bhattacharyya et al. (1997) have measured the productive efficiency of 70 Indian commercial banks in the period 1986-1991. They found that the public sector banks are the most efficient banks as compared to foreign banks and private banks. They also found a temporal decline in the performance of public sector banks in India.

Landerman (2000) has explored potential diversification benefits to be had from banks merging with non banking financial service firms. Simulated mergers between US banks and non-bank financial service firms show that diversification of banks into insurance business and securities brokerage are optimal for reducing the probability of bankruptcy for bank holding companies.
According to Delong (2001), the bank merger phenomenon has been widely accepted as the way to achieve performance improvement, especially when merger activities focus on geography, economic of scale, and activity lines.
Gourlay et al. (2006) have analysed the efficiency gains from mergers among Indian banks over the period 1991-92 to 2004-05 and observed that the merger led to improvement of efficiency for the merging banks.

3. Objectives:

- To study the important factors influencing Banks to undergo merger and acquisition
- To identify the challenges faced by merging Banks before and after merger
- To evaluate the banks performance in terms of profitability, service quality and customer perception after merger

4. Research Design and Methodology:

Secondary data was proposed to be used for the purpose of research. The financial and accounting data was collected from the bank's published annual reports to examine the impact of mergers and acquisitions on the performance of selected banks. Reserve Bank of India and other financial services websites will be used for the purpose of study. For this research paper ex-post facto research methodology will be used to analyze the impact of mergers on banks.

5. Overview of the Indian Banking System:

Banking services are critical to the functioning of any economy because it offers people a medium to exchange and provide variety of financial services which help them to make profit. Traditional banking services include receiving deposits of money, lending money and processing transactions. In India, the Reserve Bank of India acts as a central bank of the country. Banking system has a wide mix, comprising of scheduled and non-scheduled banks, cooperative sector banks, post office saving banks, foreign banks.

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6. History of Mergers in Indian Banking

Mergers of banks began in India in the 1960s in order to bail out the weaker banks and protect the customer interests. After that in post liberalization period the quest to create an Indian bank that would be in the league of global giants had been continuing since 1990.

Merger & Nationalization during the period from 1961-1969: The period is called pre-nationalization period because in 1969 the government nationalized 14 private banks. As many as 46 mergers took place mostly of private sector banks in order to revive the poorly performing banks which proved to be quite a successful move for the underperforming banks.

The period from 1969-1991: The period was called post-nationalization period. It saw six private banks being nationalized in 1980. In this period 13 mergers took place mostly between public and private sector banks.

The post liberalization period, which stretches from 1991-2015, saw major economic reforms initiated by Government of India. Many new policies were framed. Greater FDI and foreign investment was allowed which saw resurgence in Indian Banking. As many as 22 mergers took place - some to save weaker banks and some for the sake of synergic business growth.

Bank Mergers (1993-2004): The merger of Oriental Bank of Commerce with Global Trust bank in 2004 saved the latter after its net worth had wiped off and also handed OBC a million depositors and a decent market in

South India. Mergers of Punjab National Bank (PNB) with the then eroded New Bank of India (NBI) in 1993-94 and that of Benaras State bank Ltd with Bank of Baroda in 2002 also proved to be life saving for the weaker bank.

Bank Mergers & Consolidation 2008-2010: SBI first merged State Bank of Saurashtra with itself in 2008. Two years later in 2010, State Bank of Indore was merged with it.

Consolidation of Banks (2015-2017) – This phase saw five associates of SBI and Bhartiya Mahila Bank getting merged in SBI. The vision was to have strong banks rather than having large number of banks. This resulted in SBI being one amongst the 50 largest banks in the world.
After the Parliament passed the merger Bill, five associates and the Bharatiya Mahila Bank became the part of State Bank of India (SBI) beginning April 1, 2017. This has placed State Bank of India among the top 50 banks in the world. The five associate banks that were merged into State Bank of India were- State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT). The other two Associate Banks namely State Bank of Indore and State Bank of Saurashtra had already been merged with State Bank of India. After the merger, the total customer base of SBI increased to 37 crore with a branch network of around 24,000 and around 60,000 ATMs across the country.

Merger of Banks 2018- The government had merged Dena Bank and Vijaya Bank with Bank of Baroda, creating the second largest public sector bank in 2018. The amalgamation of the two lenders with BOB, has been effective from 1 April, 2019.

Mega Merger of Banks 2019- With the mega merger announce on August 30, 2019, ten public sectors banks will be reduced into four large banks. The four sets of banks are to be created out of Canara Bank and Syndicate Bank merger; Indian Bank and Allahabad Bank merger; Union Bank of India, Andhra Bank and Corporation Bank merger; and the bank to be created after merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India.

Punjab National Bank to become 2nd Largest Bank: Oriental Bank of Commerce and United Bank merger into Punjab National Bank will create a bank with Rs. 17.95 lakh crore business and 11,437 branches.

4th Largest Bank – Merger of Canara Bank & Syndicate Bank: The merger of Syndicate Bank with Canara Bank will create the fourth largest public sector bank with Rs.15.20 lakh crore business and a branch network of 10,324.

5th Largest Bank: Merger of Andhra Bank and Corporation Bank with Union Bank of India will create India's fifth largest public sector bank with Rs.14.59 lakh crore business and 9,609 branches.

7th Largest Bank: The merger of Allahabad Bank with Indian Bank will create the seventh largest public sector bank with Rs.8.08 lakh crore business having strong branch networks in the south, north and east of the country

Table 1: business position and market share of merged Banks

Banking order (Largest to Smallest)	Business in Lakhs of crore Rupees	Market Share
State Bank of India	52.1	22.5
PNB+OBC+United Bank	17.9	7.7
HDFC Bank	17.5	7.6
Bank of Baroda	16.1	7
Canara + Syndicate Bank	15.2	6.6
Union+Andhta+Corporation Bank	14.6	6.3
ICICI Bank	12.7	5.5
Axis Bank	10.6	4.6

Source : RBI report 2019

According to the Government this decision of making large entities will make the Indian banks capable of meeting the higher funding needs of the economy and will help in acquiring the global scale.

7. Consolidation of Banking Industry in India

Despite being the sixth largest economy in the world, India's financial institutions lack scale and size on global scale. To be globally competitive, we need banks that are bigger and stronger. Large financial institutions have the ability to bear economic shocks and benefits of scale, help them to provide banking services at a relatively lower cost. Over the years, various committees on the financial sector such as the Narasimham Committee (1998), the Leeladhar Committee (2008) and the Nayak Committee (2014) have recommended
consolidation among banking sector and that of PSBs.

Last year government has decided to ***merge*** three banks – ***Bank of Baroda, Dena Bank*** and ***Vijaya Bank*** — to reduce the amount of capital it needs to put into these banks, help clean their balance sheets & fill the losses in Dena Bank's balance sheet. The three merged state-owned banks will the third-largest lender after State Bank of India and HDFC Bank**.** The amalgamated entity became effective from 1 April, 2019.

Table 2: financials of merged Bank entity of BOB, Vijaya Bank and Dena Bank

Banks	Net NPAs (%)	Tier -1 Capital (%)	Total business (Rs lakh crore)	Branches	Deposits (Rs lakh crore)	Employees
Bank of Baroda	5.4	9.27	10.3	5502	5.8	55662
Vijaya Bank	4.1	10.35	2.8	2129	1.6	16079
Dena Bank	11	8.25	1.7	1858	3	13613
Merged entity	**5.7**	**9.32**	**14.8**	**9489**	**8.4**	**85354**

Source: BOB, annual report 2019

The merged entity is having a strong presence across the country, especially in South India, with more than 34% of low-cost deposits. The business book is 14.82 lakh crore. The largest of them — Bank of Baroda has a business book of Rs 10.29 lakh crore, followed by Vijaya Bank at Rs 2.79 lakh crore and Dena Bank at Rs 1.72

lakh crore. It is beneficial for the system to get larger banks but the integration will have to be managed well to gain business benefits.

Table 3: Geographic distribution of Bank Branches (as on June 2018)

Area	Bank of Baroda	Dena Bank	Vijaya Bank	Merged entity	Industry	Share (%)
East	189	41	42	272	5774	4.7
North-east	10	1	8	19	737	2.5
West	1433	487	284	2205	26894	8.2
North	446	101	166	713	16545	4.3
South	347	71	429	846	21669	3.9
Central	384	48	39	470	6635	7.1
Total	2809	749	968	4525	78254	5.8

Source: BOB, annual report 2019

8. Advantages of Bank Mergers

- Decisions on High Lending requirements can be taken promptly.
- Provides better efficiency ratio for business operations as well as banking operations which is beneficial for the economy.
- Minimization of overall risk is there due to mergers and acquisitions which is always good from the business point of view.
- Larger Bank is capable of facing global competition.
- Leads to increase in profitability and helps in raising the standard of living which is absolutely crucial for a growing economy like India.
- The merger will reduce the cost of banking operation.
- Chances of survival of underperforming banks increases hence customer trust remains intact which is vital for the Economy. The weaker bank gets merged into stronger one and gets the benefit of large scale operations.
- Merger will result in better NPA and Risk management.
- Merger will help in improving the professional standards .
- For the bank, retaining and enhancing its identity as a larger bank becomes easier. After the merger, benefits of merger are enormous and the biggest is generation of a brand new customer base, empowering of business, increased hold in the market share, opportunity of technology upgradation. Thus overall it proves to be beneficial to the whole Economy.
- The objectives of financial inclusion and broadening the geographical reach of banking can be achieved better with the merger of large public sector banks and leveraging on their expertise.
- With the large scale expertise available in every sphere of banking operation, the scale of inefficiency which is more in case of small banks, will be minimized.
- The merger will help the geographically concentrated regionally present banks to expand their coverage.
- Larger size of the Bank will help the merged banks to offer more products and services and help in integrated growth of the Banking sector.
- A larger bank can manage its short and long term liquidity better. There will not be any need for overnight borrowings in call money market and from RBI under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).
- In the global market, the Indian banks will gain greater recognition and higher rating.
- With a larger capital base and higher liquidity, the burden on the central government to recapitalize the public sector banks again and again will come down substantially.

- Multiple posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in substantial financial savings.
- Bank staff will be under single umbrella in regard to their service conditions and wages instead of facing disparities.
- Customer will have better access to banking service, diversified products with much experienced and dedicated team of bank employees.

9. Problems Arising due to Mergers & Acquisitions in Indian Banking

Most of the problems arising due to mergers and acquisitions are more emotional and social in nature than technical or managerial. The major problems which arise are:-

- Compliance needed in every decision which might not be favourable as thinking perspectives and risk taking abilities of different organizations are different. It leads to friction and rift which, if not managed well may lead to the downfall of the organization as a whole.
- Banks are merged only on papers. Their people and culture are difficult to change. It is a recipe for disaster as it leads to poor culture fit not ideal for the organization or the economy.
- Risk of failure increases if the executives are not committed enough in bringing the merger platforms together for the merging and taking over bank. Such failure may prove brutal for the Economy.
- Impact of customers on banking merger or acquisition is often quite emotional. If customer perception is not managed with frequent and careful communication it may lead to loss of business which is never good for the Economy.
- Managing Director of Federal Bank, V.A. Joseph is of the view that Co-existence of the big, medium and regional banks would be preferable in the present scenario. According to him most acquisitions in India were borne out of compulsions and over 90 per cent of past acquisitions had failed to achieve the objectives.
- Many banks focus on regional banking requirements. With the merger the very purpose of establishing the bank to cater to regional needs is lost.
- Large bank size may create more problems also. Large global banks had collapsed during the global financial crisis while smaller ones had survived the crisis due to their strengths and focus on micro aspects.
- With the merger, the weaknesses of the small banks are also transferred to the bigger bank.

So far small scale losses and recapitalization could revive the capital base of small banks. Now if the giant shaped bank books huge loss or incurs high NPAs as it had been incurring, it will be difficult for the entire banking system to sustain.

10. Conclusion

The government's move to merge two better performing banks, Bank of Baroda and Vijaya Bank,with a weaker one, Dena Bank, is a good strategy to ensure stability of both, operations and the credit profile of the consolidated entity. The success of the three-way merger will be crucial as it will pave the revival path for other weak state-owned banks through mergers. Moreover, the merger will reduce the capital burden for the government over the long term, and enable better management of a smaller set of large nationalized banks. The ability to manage potential challenges in terms of balance sheet, people and processes and their impact on growth and operating metrics over the medium term will determine the success of future mergers.

Merging state-owned banks is lot more challenging given the integration-related issues, especially regarding human resources and operations. If this merger is executed well it can set the path for future mergers among PSU banks which will strengthen the banking sector in the country and will be a win- win situation for customer and banking industry as a whole.

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